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IMPLICATIONS OF THE RECESSION IN NORTHERN EUROPE FOR LABOR SUPPLYING COUNTRIES

THE ROOTS OF THE PROBLEM: DETERIORATING ECONOMIC CONDITIONS IN WESTERN EUROPE

The economic recession in Western Europe has led to widespread layoffs in most countries, sharpening resentment against the continent's estimated 8 to 10 million migrant workers. Unemployment currently exceeds 5% of the labor force in West Germany, the Netherlands, and Belgium, while topping 14% in Denmark. Joblessness ranges between 3% and 4% in Great Britain and France. These unemployment levels are extremely high by European standards, representing a total increase in the number of unemployed for these countries of more than 60% over a year earlier.

DECLINING DEMAND FOR FOREIGN LABOR

In response to political pressures, most governments are taking steps to cushion their domestic workers from the effects of the recession. Among these measures are numerous restrictions on the employment of foreign workers:

- West Germany, France, Belgium, Denmark, and Luxembourg have banned the recruitment of foreign labor from outside the European Community.

- West Germany and France have stiffened penalties for hiring illegal immigrants or smuggling them into the country.
- Bonn has directed West German labor offices to give preference to German nationals over foreigners in filling job vacancies. Employers seeking to hire foreigners must demonstrate that they were unable to find any native Germans to fill the job.
- Austria intends to establish both provincial and national quotas for foreign workers and to refuse work permits when employment of nationals is threatened.
- The Netherlands has put a ceiling on the immigration of foreign workers and the number of foreigners each firm may hire.
- Switzerland, despite an exceptionally low unemployment rate, has reduced the number of work permits issued annually and eliminated exemptions granted for foreign workers in hospitals and schools and on farms.

Legal impediments to the recruitment of foreign workers, combined with the high concentration of foreigners

in those industries hardest hit by the recession -- construction, automobile manufacture, and tourism -- have sharply reduced the demand for foreign labor. Unemployment among foreign workers is skyrocketing, rising faster in most countries than the jobless rates for nationals. In West Germany, for example, the unemployment rate for foreigners was 7.1% in February compared with 2.7% a year earlier. The corresponding rates for German nationals were 5.0% and 2.7%, respectively.

The growing scarcity of jobs has sparked the return of thousands of migrant workers to homelands already beset with severe economic and political problems. Moreover, the influx of foreigners to the Northern labor-importing countries has slowed considerably. During the first three quarters of 1974, the number of third country migrant workers entering the European Community dropped by nearly two-thirds from the previous year's level. The number of foreign workers in West Germany -- the largest employer of foreigners in Western Europe -- has declined by nearly 250,000,or more than 9%, since late 1973. Switzerland and Austria have both reduced their foreign work forces by 11%.

IMPLICATIONS FOR LABOR-SUPPLYING COUNTRIES

Northern Europe's present inability to absorb the surplus manpower of other countries is a matter of particular concern

to the governments of Turkey, Greece, Yugoslavia, Italy, Spain, and Portugal. The exodus from these countries of thousands of migrant workers annually during the last decade has considerably eased strains on their domestic labor markets and kept unemployment down. Workers abroad currently equal approximately one-fifth of the domestic labor force in Yugoslavia and Portugal. The corresponding shares for Turkey, Greece, Italy, and Spain range from 5% to 10%.

Furthermore, foreign exchange earnings derived from workers' remittances have become increasingly important in offsetting rising trade deficits. For example, Turkey's trade deficit rose to an unprecedented $2 billion in 1974, but the $1.4 billion received in workers' remittances helped to reduce the deficit on current account to $100 million. Workers' remittances now constitute nearly half of Turkey's current account receipts and are a primary source of foreign exchange for Portugal, Yugoslavia, and Greece. Remitted earnings also supplement personal incomes in the labor-supplying countries and provide much-needed funds for investment.

The declining demand for foreign workers in Northern Europe has contributed to a pronounced deterioration of

labor market conditions in the Southern countries. Unemployment has climbed to 15% of the labor force in Turkey, compared with an average rate of 12% during 1973. Yugoslavia, which estimates that over 100,000 workers have already returned home from jobs in Western Europe, reports a 20% increase in joblessness over the last year to a current rate of 9.4%. Unemployment is also on the rise in Italy, Greece, Portugal, and Spain.

The impact of rising joblessness on incomes is particularly acute in Turkey and Portugal, which have no formal unemployment compensation schemes to assist laid-off domestic or returning foreign workers. Greece, Italy, Yugoslavia, and Spain provide benefits to workers laid off at home, but only in Italy do returning workers from abroad qualify for assistance.

A marked reduction in workers' remittances has accompanied higher jobless rates in most labor-supplying countries, compounding balance-of-payments difficulties and adding to the incomes squeeze. These remittances are an important part of disposable incomes in southern Europe. After years of steady growth, remittances declined in 1974 by an estimated 21% in Greece and Spain, 18% in Italy, and 9% in Portugal. Remittances to Turkey and Yugoslavia continued to rise in 1974, but at a much slower rate than in preceding years. The general decline in remittances to South European countries

coincided with widening trade deficits, caused in large part by the higher cost of imported oil. The net result was substantial current account deficits in most of these countries, with Italy experiencing the most severe payments squeeze.

CONCLUSIONS: THE OUTLOOK FOR 1975 AND BEYOND

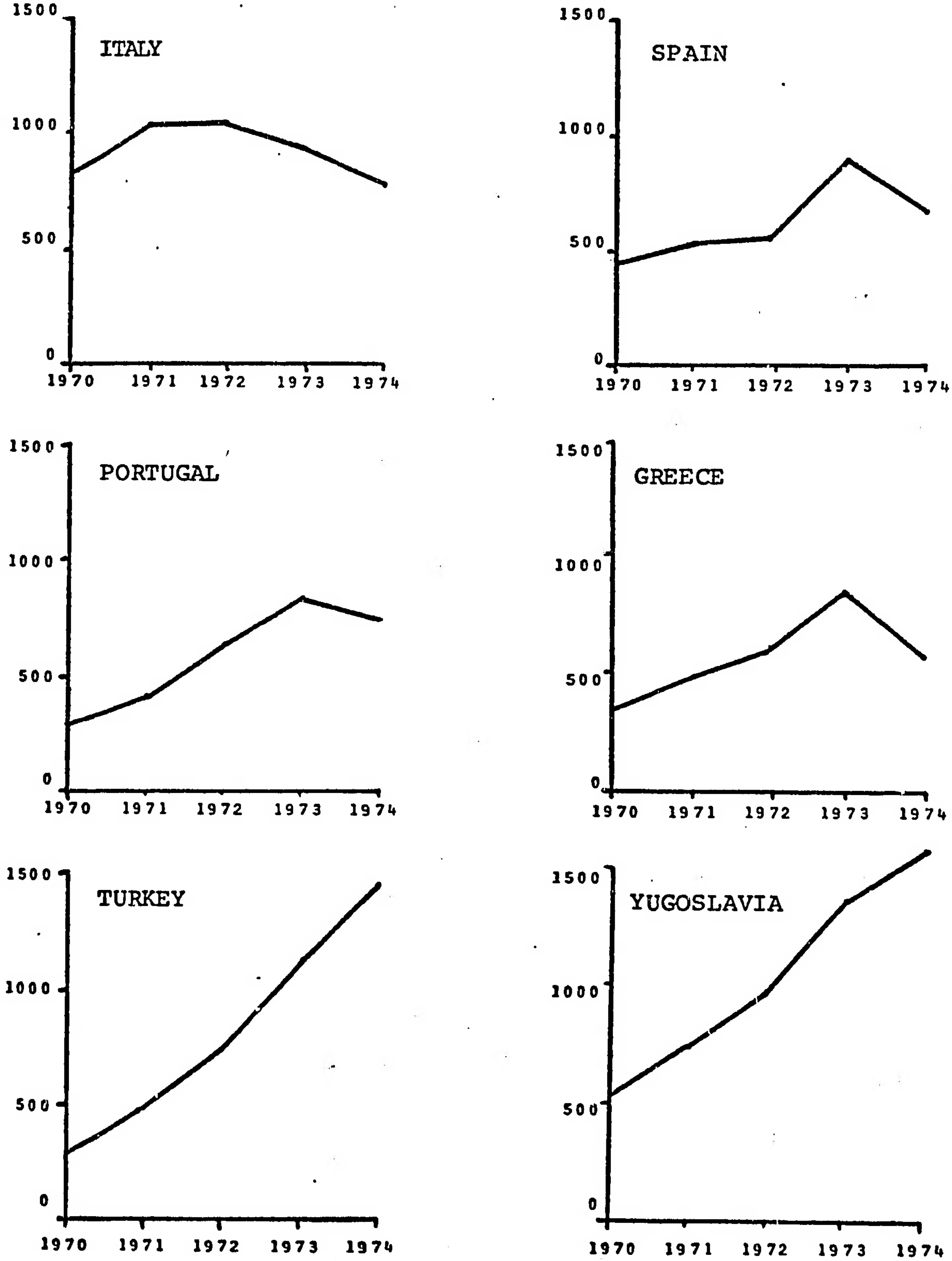
GNP in most of the labor-importing countries of Western Europe is likely to expand little in 1975 and to grow at below-average rates in 1976. Unemployment -- a lagging indicator of economic activity -- will thus hold at exceptionally high levels for many more months. The depressed demand for labor will cause a further reduction in the number of foreigners employed in Western Europe during 1975. West Germany, for example, expects its "guest worker" population to drop by an additional 350,000, or 15% by the end of this year. In the labor-supplying countries, the return of workers from abroad combined with a reduction in the amount of surplus labor normally siphoned off through migration will accelerate the rise in the unemployment rates. In 1975, the total increase in available workers attributable to the falling demand for foreign labor in Western Europe is expected to range from 1% to 2% of the labor force in Turkey, Italy, and Spain, and from 3% to 5% in Yugoslavia, Greece and Portugal.

The continued drop in the number of foreign workers in Western Europe combined with rising unemployment among those migrants remaining will mean a decline in workers' remittances in 1975 for all major labor-supplying countries. Turkish officials estimate, for example, that remittances could drop by as much as 30% this year. The reduction in remitted earnings will aggravate the already difficult balance of payments problems of the Southern countries and limit growth in disposable incomes.

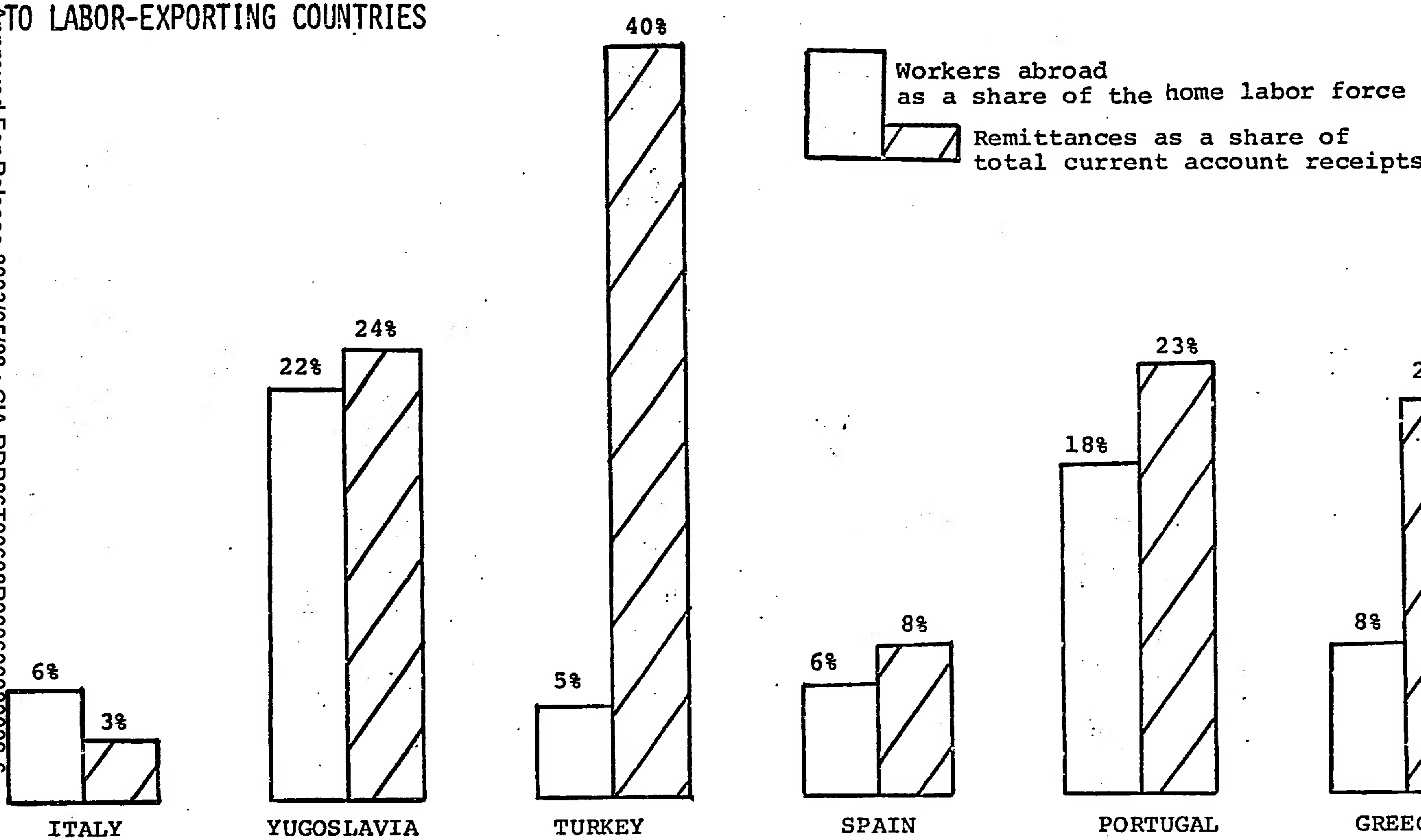
The longer-term outlook for Western Europe's "quest workers" is more encouraging. Since migrants generally occupy the low-paying, unskilled, menial positions looked down upon by the more affluent domestic workers, the degree to which foreigners can be replaced by nationals is limited. Not even a severe, prolonged recession would send all of the migrant workers home. Moreover, the economies of the Northern countries are expected to pick up later this year or in the first half of 1976. When economic recovery swings into high gear, foreign labor will again be in demand and workers' remittances will resume their upward trend. In fact, taking into account an expected decline in the domestic workforces of several countries during the next decade, the United Nations predicts that -- economic fluctuations notwithstanding -- Western Europe's foreign workers population could surpass 20 million in the 1980s.

WORKERS' REMITTANCES, 1970-1974

(MILLIONS OF DOLLARS)



THE IMPORTANCE OF FOREIGN WORKERS TO LABOR-EXPORTING COUNTRIES



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NUMBER OF FOREIGN WORKERS IN MAJOR LABOR-IMPORTING COUNTRIES

BY COUNTRY OF ORIGIN

	West Germany		Switzerland		France		Austria		Netherlands	
	September		August		1 January	1 January	November		September	
	1973	1974	1973	1974	1974	1975	1973	1974	1973	1974
Turkey	605,000	590,000		13,900			30,527	31,462	21,585	
Yugoslavia	535,000	470,000		43,800			198,024	168,660	8,489	
Italy	450,000	370,000	273,500	227,900	230,000					
Greece	250,000	225,000								
Spain	190,000	165,000	134,800	112,700	275,000				12,560	
Portugal	85,000	85,000			400,000				2,458	
Morocco					133,000				12,450	
Tunesia					83,000					
Algeria					460,000					
TOTAL	2,595,000	2,350,000	620,900	551,300	1,900,000	1,940,000	250,775	222,301	70,000	68,000